

SENATE BILL 394

Lower Tax Rates for a Stronger NC Economy

Bipartisan Plan for Economic Growth

- Lower every major tax rate
- Make tax rates more competitive with neighboring states
- Make tax system simpler, fairer
- Eliminate clutter of rates, exemptions
- Provide stable revenue stream
- Disentangle State revenue from local revenue
- Keep changes revenue-neutral

SO WHAT'S WRONG WITH THE REVENUE SYSTEM WE HAVE NOW?

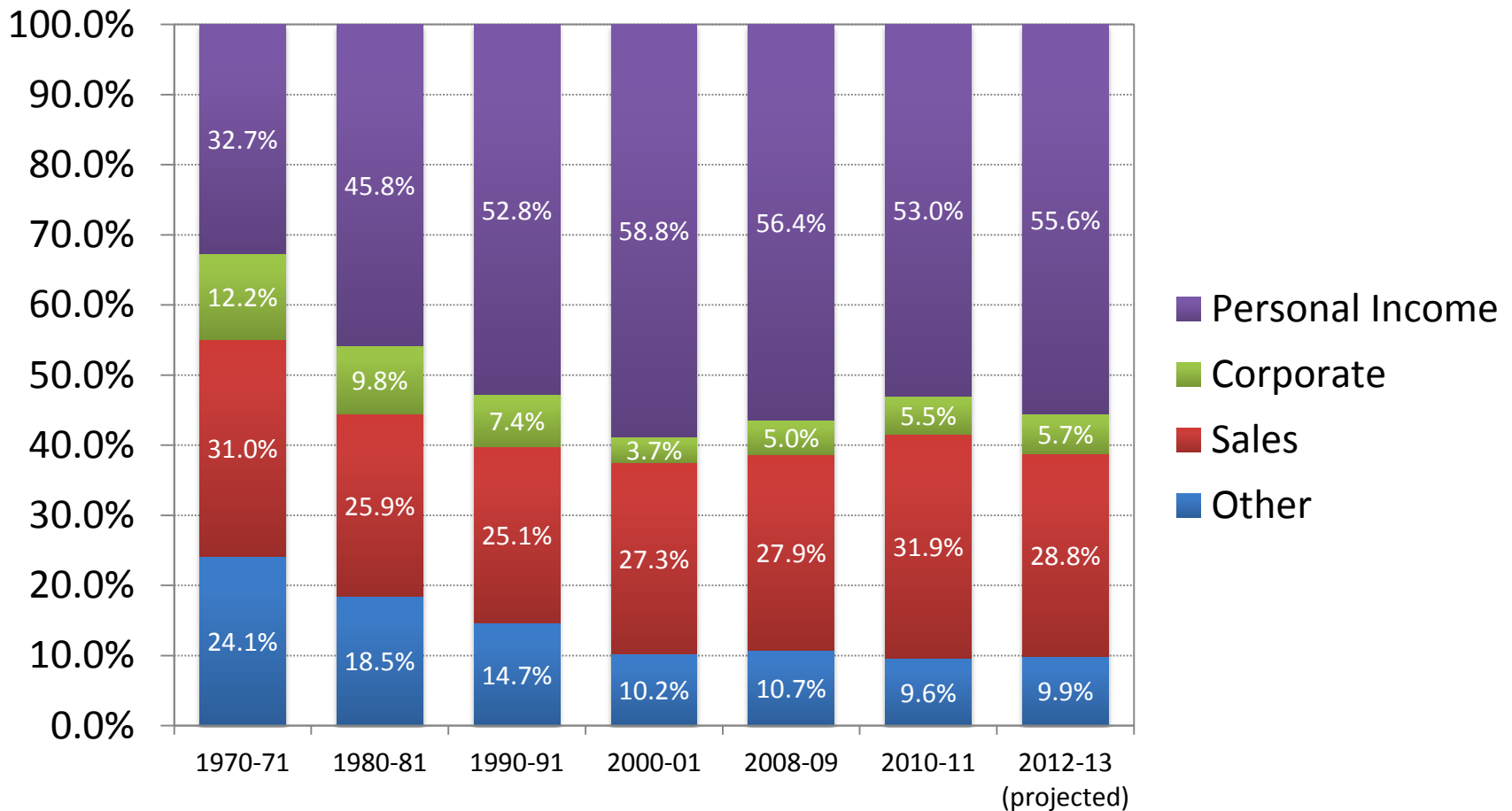
STEVE MEYERS' VIEW



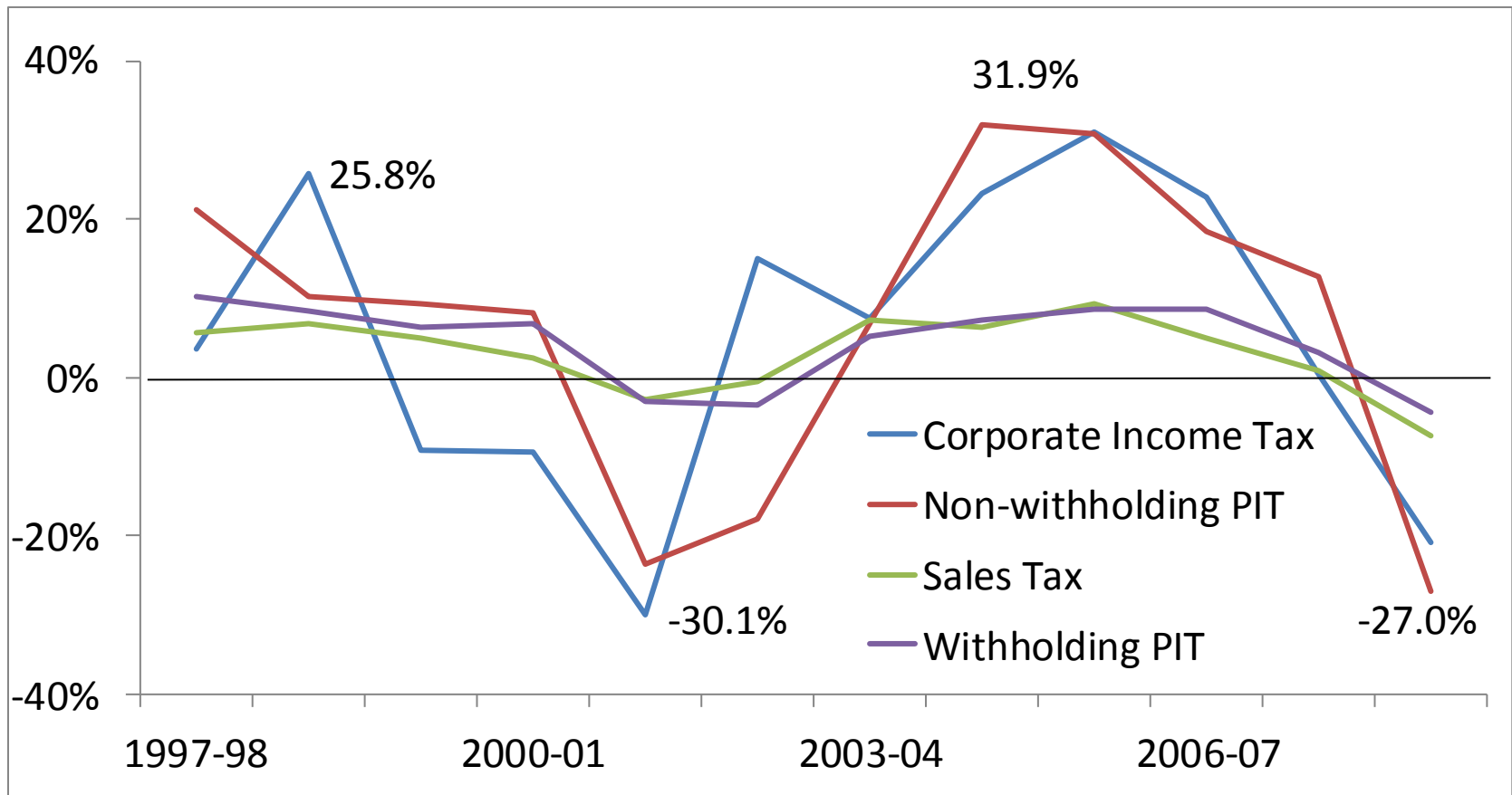
MAINE SUNDAY TELEGRAM
SUNDAY, JULY 26, 2009

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North Carolina Tax Structure (1970 – 2013)

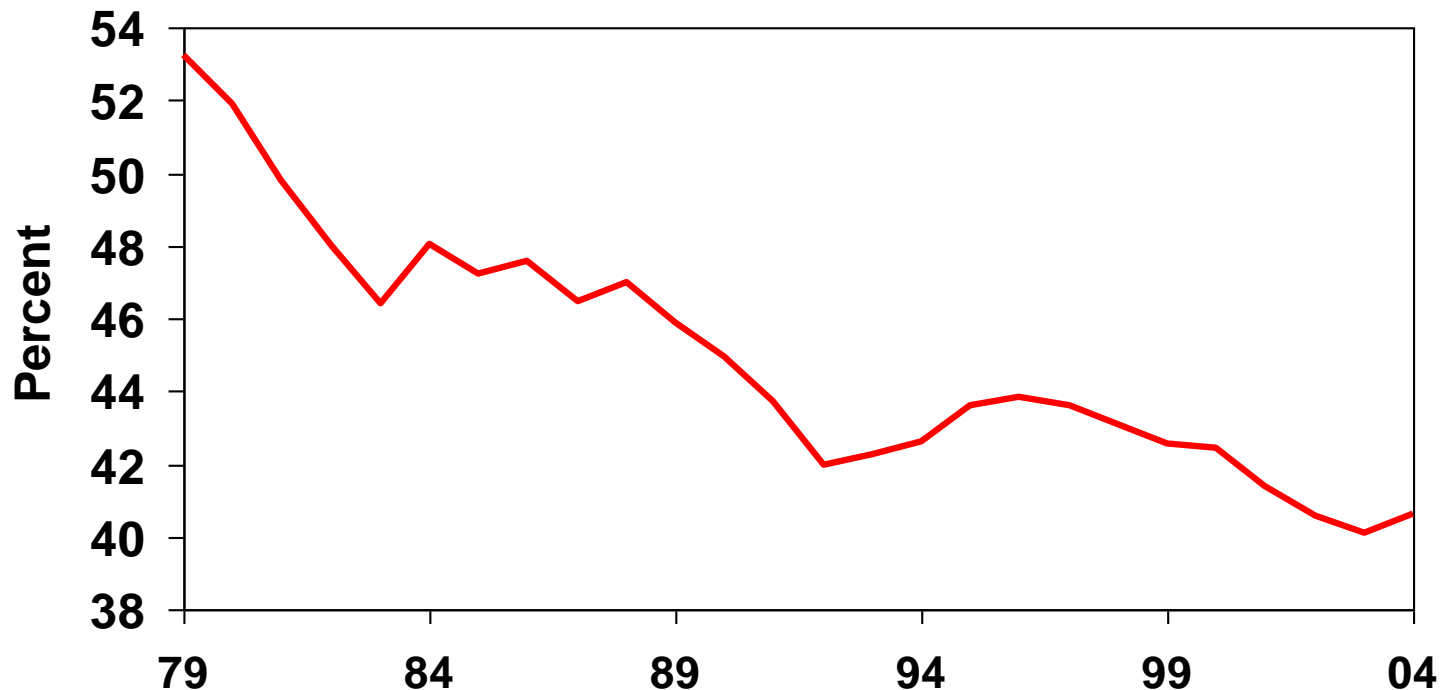


Growth & Stability

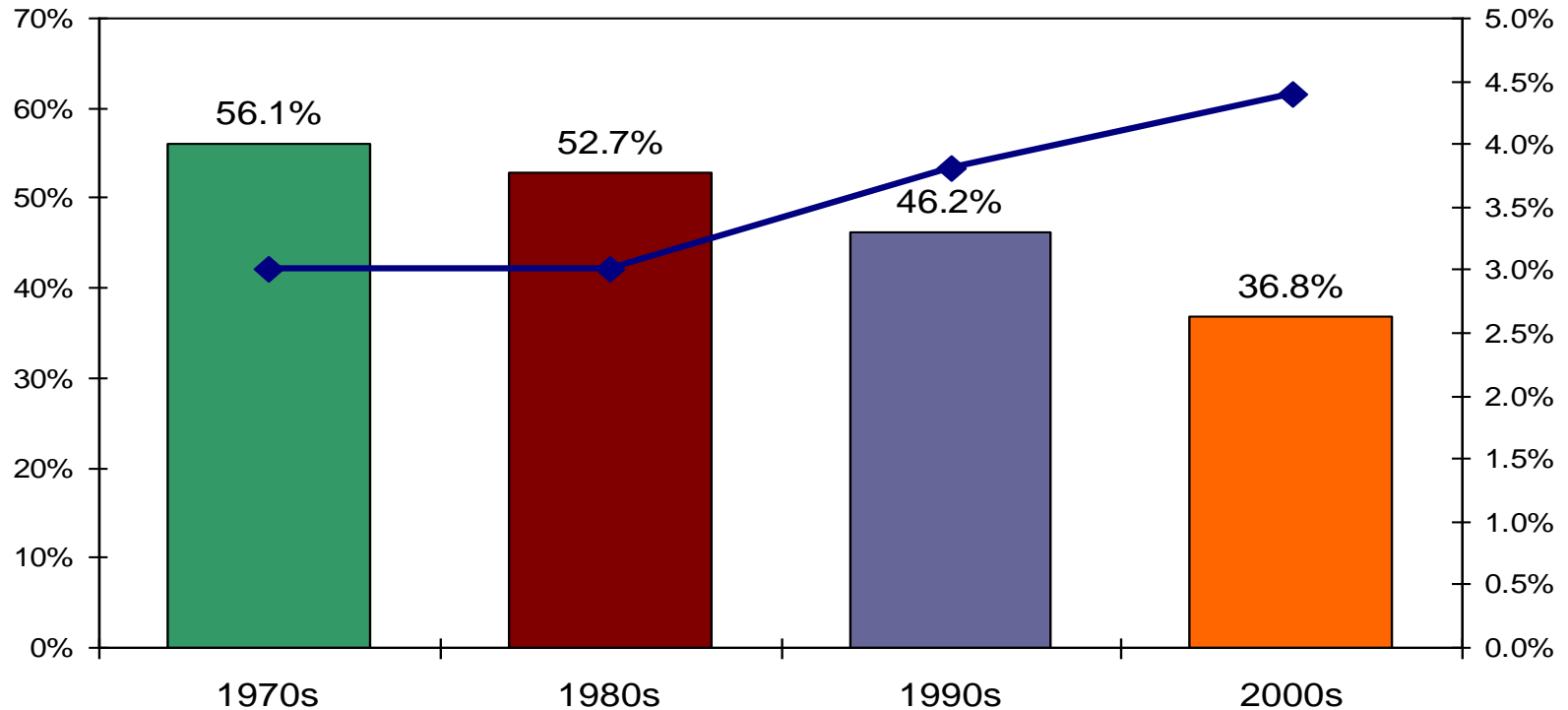


20% of General Fund revenue comes from two volatile sources: CIT & non-withholding portion of the PIT

Sales Tax Base Is Shrinking as Percentage of Total Economy

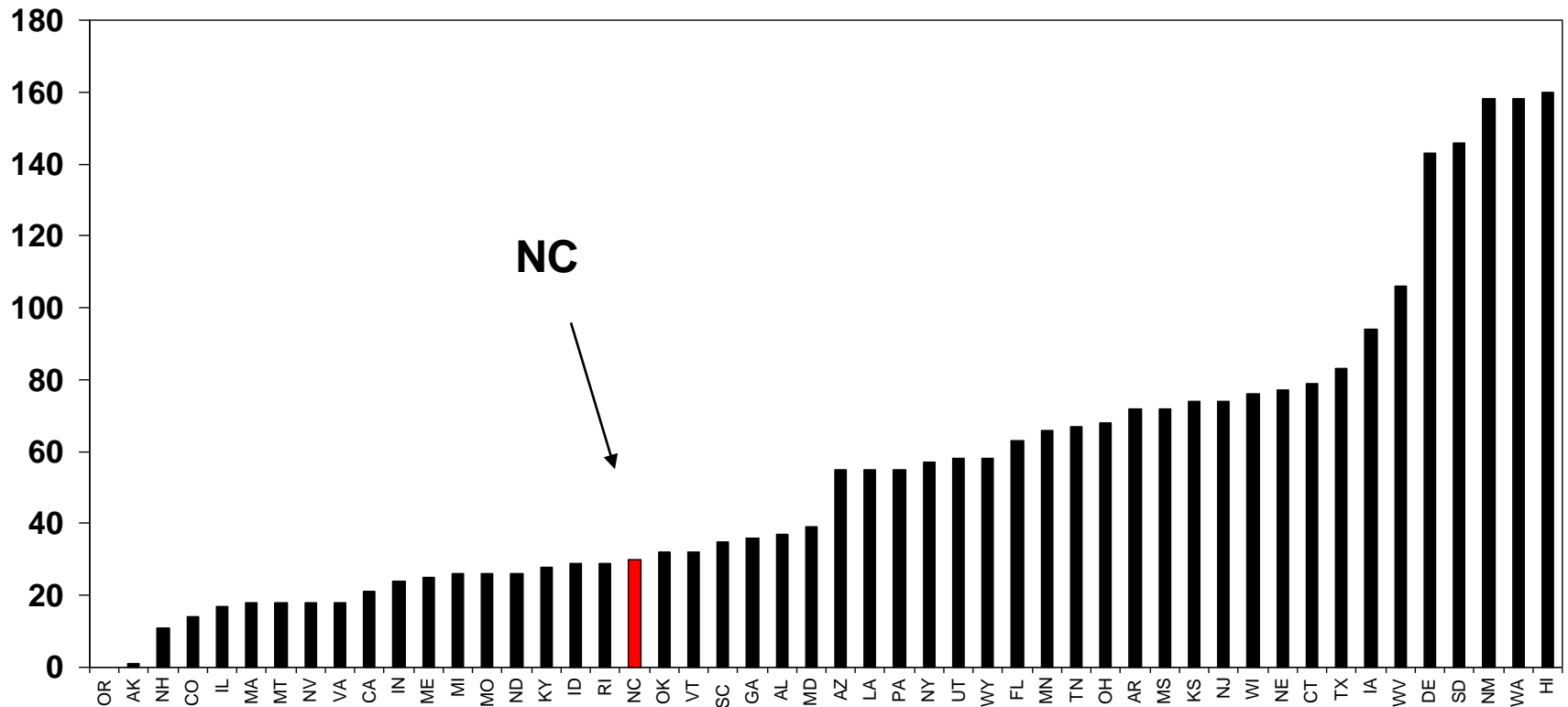


The Sales Tax Base



Due to shifts in consumption and an eroded base, the State rate has increased from 3% to 4.75%. Despite the rate increase, sales tax as a share of GF revenue has declined.

Taxation of Services, by State



Source: Federation of Tax Administrators, 2007 Survey

Tax Rates

Tax	Current Rate	SB 394 Rate	Decrease
Individual Income	6, 7, & 7.75%	6%	23%
Corporate Income	6.90%	6%	13%
Franchise	\$1.50/1000	\$1.25/1000	16.70%
State Sales	4.75%	4.50%	5%

Rates Compared to Other States

Tax	Current	SB 394	GA	SC	TN	VA
Individual Income	6, 7, & 7.75	6	1 to 6	3 to 7	No general	2 to 5.75
Corporate Income	6.9	6	6	5	6.5	6
Franchise	1.50/1000	1.25/1000	\$10 to 5000	1.00/1000	2.50/1000	No general
State Sales	4.75	4.5	4	6	7	4

Individual Income Tax Highlights

- Establishes flat 6% rate
- Replaces standard deduction and exemptions with zero bracket amount
- Eliminates all credits except:
 - Child credit – increased to \$200 or \$450
 - Charitable contribution credit, capped at \$600
- Replaces other credits and deductions with personal expense credit available to everyone
- Eliminates most deductions
- Taxes Social Security income only if taxed by federal government

Business Tax Highlights

- Lowers corporate tax rate to 6% - same as individual rate
- Increases sales factor weighting from 2x to 6x – first step in transition to single factor sales
- Includes all limited liability entities in business privilege tax – replacement for franchise tax
- Repeals local privilege license taxes
- Repeals \$1%, \$80 excise tax on manufacturers and a few other businesses and enacts sales tax exemption for the capital equipment that was subject to that tax
- Allows Article 3J and most tax credits to sunset
- Eliminates annual report fees

Sales Tax Changes: Expand Base

- Repeal vending and various other exemptions
- Include tangible personal property services
 - Service contracts
 - Alteration, repair, maintenance, cleaning, and installation
- Include entertainment and recreation
 - Live entertainment, movies formerly taxed under privilege license tax
 - Charges for museums, cultural sites, exhibits, shows, similar attractions
 - Charges to play or participate in a game, sport, or fitness activity
- Include storage
 - Short-term self-rental space, short-term clothing, boat, aircraft storage
- Include real property care and maintenance services
 - Extermination and pest control services
 - Landscaping services other than for new construction, utility easement
 - Cleaning
- Include security services
 - Guard and armored car services, alarm system monitoring
 - Locksmith services, telematic motor vehicle services

Local Revenue Impacts

Increases

- Distribution of State business privilege tax
- Expand sales tax base:
 - Electricity and piped gas
 - Tangible personal property services
 - Entertainment, recreation
 - Real property care and maintenance services
 - Eliminate exemptions

Decreases

- Local privilege license tax
- Distributions of State tax:
 - Franchise tax on electricity
 - Piped gas excise tax
 - Beer and wine excise tax
 - Corporate income tax
 - Modular home sales tax
- Medicaid hold-harmless
- 1% Sales Tax on Food